

Mizuho Daily Currency Watch

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MIZUHO

Colin Asher

Senior Economist

colin.asher@mizuhoemea.com | +44 20 7012 5262/+44 7387 139164

Currency	Main focus of the week (S-T view)
EUR	French gridlock to weigh
USD	Another benign CPI print to limit any upside for USD
JPY	Hovering just below the intervention zone
GBP	Lack of negatives sees scope for mild GBP appreciation

Overnight comment – Less hawkish RBNZ hits NZD

Whilst Fed Chair Powell explicitly noted that he wasn't going to be sending any signals on the timing of policy moves, the narrative of conditions for easier policy gradually slotting into place remains intact in the wake of his semi-annual testimony to Congress yesterday. UST yields edged a little higher and the curve steepened in the wake of his comments, while equity markets continued to push higher with one eye on earnings season. In the Asian session, UST yields were little changed as was the DXY index. Asian equities were mixed. NZD underperformed as the RBNZ left policy unchanged, with no mention of additional hikes being considered. Chinese CPI was a little weaker than expected in June, up just 0.2%YoY, while the PPI remained in negative territory at -0.8%YoY.

Yesterday, headlines from the BoJ's meeting with investors suggested that some large banks were seeking large and rapid reductions in Rinban operations. We suspect that the BoJ will go more slowly. Smaller banks seemed less enthusiastic about large/rapid reductions. We assume with one eye on financial stability, the BoJ will move carefully. It will be keen to avoid a Silicon Valley Bank-type event and take a measured approach. The PPI rose to 2.9%YoY in May from an upwardly revised 2.6%YoY, with the weak yen clearly a factor adding to the upside pressure. Reuters reported that the BoJ will likely leave its CPI forecasts unchanged but revise down its FY24 GDP forecast. We note that in the wake of the recent Q1 GDP revision, the Bloomberg consensus FY24 GDP forecast dropped from 0.6% last month to 0.5% this month. Long end JGB yields continued to rise, while the front end held in better. **USD/JPY rose early in the session to sit around 161.50 as Europe opens.** The Topix closed at a record high, with today's gains led by financials, especially insurers.

Yesterday's ECB commentary from Nagel and Panetta nicely encapsulated the ECB's policy debate. Panetta, said that it was likely that service prices would follow goods prices lower and worries on service prices should be "put in perspective". Nagel, on the other hand, suggested he remained cautious in the face of recent data, noting that core inflation is still relatively high. There has been limited progress on forming a government in France. The discussions look likely to last for a considerable time. **EUR/USD was little changed in Asian trade sits around 1.0820 as Europe opens.** It was a quiet start to trade in the UK ahead of Pill's speech later in the session. **GBP/USD was little changed in Asian time and sits around 1.2795 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
Fed Chair's semi-annual testimony to Congress (Day 2)	--

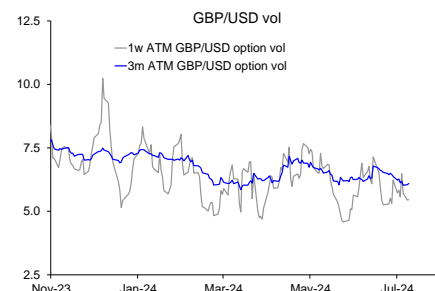
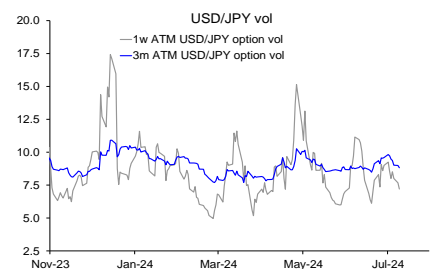
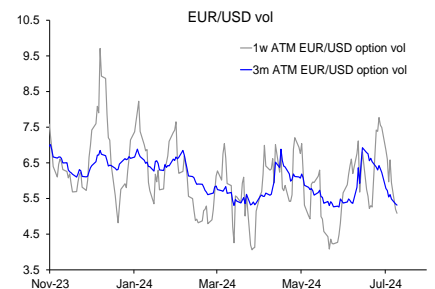
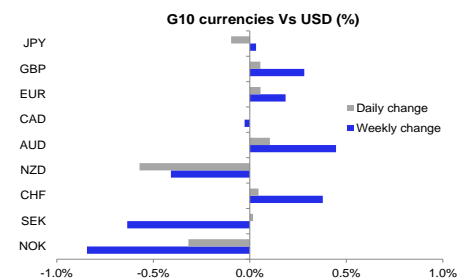
Source: Bloomberg

Europe. The ECB's Nagel speaks but is unlikely to add much to his comments from Tuesday. BoE Chief Economist Pill speaks. In his last speech before the election, we detected some difference in opinion between Pill and the Governor, with Pill seemingly a little more concerned about inflation persistence and the Governor a little more convinced that the BoE has done enough. As of now we suspect that there will be a majority for a rate cut in August but if Pill were to indicate growing confidence on the inflation front it would provide more comfort given that we currently have it as a close 5-4 vote (with Pill voting against, alongside the 3 hawkish external members). Given the closeness of the vote, the data release over the coming 3 weeks may well play a role ahead in the decision of the 1 August MPC meeting. Note that the August meeting is Haskel's (hawk) last.

US. Fed Chair Powell will give the second round of his testimony to Congress, speaking to the House Financial Services Committee. Today's data (wholesale trade) are not likely to be much of a market mover leaving the focus on tomorrow's CPI data.

Market data

(Source: Bloomberg)



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